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Using Outlook Information

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by Carl C. Malone

FARMERS, like other businessmen, must make some kind of an appraisal of future conditions that may affect the success of their business. Many do this in a careful and well-organized way; others do not.

There's always some gap from the time production is started to the time of sale. The length of this gap—from the time a decision is made to the final outcome—has an important bearing on how a particular farm should be operated. Price changes during this gap can vitally affect income results.

Careful appraisal is more important now than for the average year of the past decade and more. With minor interruptions, inflation and rising prices prevailed from 1940 to 1951—in fact, for most years since 1932. Errors in judgment are often overcome by rising prices in an inflationary period.

Some farmers say it's more important to have a good program and stick to it than to try to adjust a program to the outlook. Much of the reason for this viewpoint lies in these years of generally rising prices. What the next decade holds, no one can say. But for at least the next year or two, the evidence points to steady or weaker prices rather than rising ones.

This suggests that a change may be needed in the farmer's policy from that used in the 1940-51 period. A well-balanced farm operation is more important now, using the outlook as a guide to the enterprises that should be emphasized and to investments that are wise to undertake.

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What is the outlook? The business and farm outlook as related to the national economy and prospective farm exports is discussed in the preceding article. It suggests that farmers go ahead, generally, with a full operating program. But it's important to remember that commitments for the future should be made, for the most part, with a good deal of allowance for errors of judgment as to how commitments will turn out when the outlook is rather uncertain and on the weak side.

What can be changed? An individual farmer usually can make changes in one or more of five main parts of his business:

- The level or size of his total operation.
- The combination and relative size of various enterprises.
- The timing of buying, producing and selling.
- The practices and methods to be used.
- The extent of adding capital equipment—replacing at a normal rate or postponing replacement.

Appraising prospects: The *cash crop farmer* has the greatest price assurance in his favor. The present corn price program continues for the 1954 crop; Congress is more likely to add another program to the end of the present law than modify corn price supports for 1954. The cash-grain farmer's choices fall into three parts:

1—Choosing the cropping system that gives the best income prospects. Decide on the best proportion between corn, soybeans or other crops. Consider how he can best protect himself against a drouth, a wet year, hail or an early frost at a reasonable cost. Estimate how far it will pay to go in fertilization and other out-of-pocket costs that influence yields.

2—Assuming acreage allotments, should he go in or stay out? If he accepts his allotment and the majority of corn farmers also do, there may be little advantage. If not so many comply, the advantage of being able to seal may be great.

3—How should he use his allotted acres? He must choose between growing something to sell in 1954 or building up for a better yield in later years. Here, much depends on the price-support program for alternative crops, the trend in general prices and what the 1955 corn price program will be.

In any case, the cash crop farmer has much price certainty to use if he desires. Much of his unavoidable risk depends on the yield of his crops for 1954.

The *dairy farmer,* too, has quite a bit of price certainty; most likely some kind of dairy price-support program will be continued after March 30. The dairyman's profit prospects aren't so favorable as the corn producer's. Dairy enterprise profits are at quite a modest level.

Where a "sure" Grade A milk outlet can be found, converting to Grade A would be worth considering even at quite a little investment expense though profit prospects from such a shift remain modest. The farmer must look to the long run for his benefits from shifting to a Grade A outlet.

The *hog farmer's* favorable outlook stems from the smaller number of hogs headed for market in the next 7 months and from favorable consumer incomes. Feeding ratios and, thus, profit margins are quite good for the skilled producer. The prospects are less certain from next October on.

If the 1954 spring pig crop is up only 5 percent or so and if business weakness, if any, is mild, hogs still should turn in a favorable feeding margin next winter. But if numbers go up 10 percent or more and business slackens, feeding margins will be thin. Hog producers raising April or May pigs will want to watch breeding intentions closely this winter and business developments by early spring.

The *cattle feeder* who bought in at 20 cents or under for good to choice feeders or at equivalent prices for lower grades can look forward with a good deal of confidence—especially if he plans to market by midsummer or earlier. If he plans to market later, he'll want to keep a sharp eye out for changes in business prospects this spring.

Feeders who got in at much higher prices and will market after midyear have a fair chance if business stays good through the fall, otherwise not. The likelihood of smaller cattle numbers on feed for fall marketing is in their favor, but this is not yet a certainty.

The cattle raiser might just as well adjust his income plans to the general level of cattle prices of 1953 or somewhat lower. If cattle numbers continue in the 90-odd million range, slaughter will be large for several years — and it would be even larger for 2 or 3 years should cattle numbers turn down. If he continues cattle raising—they do market a lot of grass —there are few places the cattle raiser can adjust his enterprise except to improve his management and economize wherever he can. He may want to put more emphasis on other enterprises. The man who feeds out his own calves can look forward to a better outlook than the man who sells grass cattle.

Much of the adjustment needed in the national *poultry and egg* enterprise was taken in the 1946-50 period. From here on, profits will depend on keeping the nation's hen flock closely geared to consumer demand. Farmers who fail to get at least 150 eggs per hen can't look for much net margin. While the longer run outlook is fairly good, be cautious about large capital outlays per hen unless capital is plentiful and a modest return is satisfactory.

Where is expansion justified? Some farmers are operating at considerably below normal capacity. Expansion would be justified in such cases even though the outlook is only moderately bright. But the expansion should be built around enterprises with a rapid turnover and an early cash return —cash crops or hogs, for example, or where income prospects are modest but fairly dependable.

Farmers needing to expand usually have limited reserves, and this hardly seems the time to borrow capital for investments paying a modest or uncertain rate of return. But serious under-employment of farm resources, including the farmer's own labor, is costly, too. Expansion possibilities should be examined carefully where this is the case.

In most cases of adjustment, a farmer looks toward enterprises where the outlook is favorable, secure or both, providing they fit into his farming situation. The more difficult adjustment cases are on those farms that have moved to a rather high level of intensity and where total cash outlay is a rather large percentage of gross income. It's difficult to back away from an intensive business without leaving some of his resources under-employed unless the farmer can get more land and thus shift to a more extensive operation.

Farmers lacking good balance among their enterprises should move to correct this weakness. Specialization that pays very well in time of inflation may not work out when prices are weak. This is often the experience of purebred livestock producers, for example.

With slightly weaker price trends in prospect, good planning calls for shortening up commitments where this can be done sensibly. Timing to take advantage of seasonally strong markets is more important now. Good planning is needed in choosing practices, too. The guiding rule here is to estimate the added return from using the practice compared with the added cost. But added returns should be estimated on the basis of the price outlook rather than on present or average prices of the past.

Roughage values changing: Prices of roughage-consuming livestock have experienced the main downward price adjustments during the past 6 years; beef cattle prices dropped from an unusually high level. Compared with the 1948-52 average, beef cattle prices are down about 25 percent and sheep prices almost as much. Cash returns from the dairy enterprise are down some 15 percent, but dairy products started down from a lower level.

Feed costs are made up partly of grain and other concentrates, partly of roughage and pasture. The grain part of the total ration for these enterprises has declined only slightly in price, held up by the corn loan program. So the brunt of the decline in prices of the product being sold has fallen on the roughage component of the ration. Thus, roughage values and grassland are coming under pressure, especially permanent grassland. And, if acreage controls become general on basic crops, the pressure will continue as additional land is shifted into grass.

On the other side, Iowa's main grain-using livestock, hogs and poultry, have experienced a more favorable price in 1953 than in the 1948-52 period. Apparently, national production here is fairly well geared to concentrate prices so as to leave the producer a reasonable profit.

Where to look for guidance: During inflation, the premium generally goes to the larger operator and the man who moves quickly. But when prices are steady or falling, it's different. The man who is careful may do better than the man who is bold—provided he has enough volume of business so he can be efficient. Some of the experience of the past 20 years will be useful—but not all—in a period when the basic price trends in agriculture are changing direction. There's a premium on being an apt student of these changing conditions.